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E.O. 12958: DECL: 11/14/2016
TAGS: ECON EFIN EINV EIND EG
SUBJECT: EGYPT: OMAR EFFENDI SALE SHOWS PRIVATIZATION
COMMITMENT, BUT IS STILL CONTROVERSIAL

REF: CAIRO 001474

Classified by Minister-Counselor for Political and Economic Affairs William R. Stewart for reasons 1.4 b and d.

¶1. (C) Summary: The successful sale of government-owned retail chain Omar Effendi is a triumph for the GoE privatization program, overcoming public opposition and accusations of undervaluing a national icon. However, opponents of privatization from across the political spectrum criticized the sale at the opening session of parliament. Pushing this sale through shows the Nazif government's commitment to privatization, though further privatizations will continue to face opposition unless people see tangible benefits from the economic reform program. End Summary.

Finally Sold

¶2. (U) On September 25, the General Assembly of the state-owned Holding Company for Trade gave the final go-ahead for the sale of Omar Effendi - an iconic government-owned retail chain founded in 1865 - to Riyadh-based Anwal United Trading Company. Anwal will pay EGP 38.53 ($6.73) per share for 90 percent of the company's capital, for a total of EGP 589.5 million ($103 million), with the remaining ten percent owned by the Holding Company. Anwal will also pay EGP 50 million ($8.7 million) to 1200 employees as an early retirement incentive; a three month bonus to working employees; EGP 180 million ($31.5 million) to develop the company and renovate stores and distribution systems; and EGP 155 million ($27 million) to cover the company's tax obligations. Anwal has also committed to preserving workers' rights and privileges - i.e., remuneration, benefits, etc. - under existing contracts and to transfer two percent of the shares to a workers fund. Minister of Investment Mohieldin has promised another six-month bonus for employees after the contract is signed. Finally, Anwal will retain store locations deemed to be of architectural value, such as one on Abdel Aziz Street in Cairo and another in central Alexandria.

¶3. (U) The sale follows a tumultuous process in which the GoE was accused of attempting to sell a national asset cheaply. Omar Effendi has long dominated the retail sector and has been a symbol of Egyptian pride and state-controlled economy since it was nationalized in 1957. Anwal's offer was originally a sole bid, fueling concerns that the GoE valuation was too low. Flames were fanned further when Egyptian businessman Saeed El-Hanash submitted a new, much

higher bid at EGP 2 billion ($349.5 million); however, El-Hanash was never able to provide a letter of guarantee for his bid and was thus rejected. The GoE has twice previously attempted to sell Omar Effendi, in 1999 and 2001 but both times was unable to reach agreement with bidders (all from Arab countries) due to Omar Effendi's huge payroll, antiquated retail methods, the poor condition of its stores, and other problems.

Win For Privatization, But Opposition Remains

¶4. (SBU) In a September 24 meeting with the Ambassador, Minister Mohieldin stressed the sale of Omar Effendi is a crucial step for Egypt's privatization program. Unlike previous privatizations, most of which concerned little-known industrial companies, Omar Effendi is a household name in Egypt. Its privatization is a clear signal of Egypt's movement from a statist to a private-sector driven economy. Mohamed Samy Hassouna, Advisor to the Minister of Investment for Public Enterprises, echoed this point to econoff, noting that completion of the sale despite strong opposition signals investors that Egypt is serious about privatization. Hassouna also highlighted the transparent process by which this sale was conducted, and hoped that this would build confidence in further GoE privatizations.

¶5. (C) Nevertheless, if the November 8 opening day of parliament is any sign, the privatization program still faces opposition from across the political spectrum. Opposition al-Wafd MP Mohamed Mustafa Sherdi told poloff that on the first day of the new session alone, five requests for interrogations of ministers were received regarding the Omar Effendi sale. He warned to expect "marked attention" from

parliamentarians, NDP and non-NDP alike, on privatization and "the selling-off of our country's assets in an irresponsible way."

¶6. (U) In both government and opposition media, the sale has consistently been a rallying point for privatization opponents. Most argue that the GoE was more interested in completing this and other privatizations than in getting fair values. The GoE, the argument goes, is thus orchestrating the looting of national wealth. Some highlighted that privatization would destroy the economy and increase unemployment by laying-off workers of public companies. Others derided the plan to sell Omar Effendi and other public companies as a conspiracy with western countries, a view also held by 102 parliamentarians, who in June signed a letter accusing the GoE to this effect.

Comment

¶7. (SBU) In pushing through this sale, the Nazif government is signaling its commitment to continued privatizations, even in sectors previously considered "strategic" and off-limits. Nevertheless, unless people begin to see tangible benefits from GoE economic reforms, privatization will continue to be a hot-button issue for those who fear that in dismantling the statist economy the GoE is selling out Egypt, and cheaply at that. It is rumored that a wealthy, corrupt group that sells low-quality goods at inflated prices to Omar Effendi and other public chains is partly responsible for instigating opposition to the sale. However, the vehement public reaction shows the deep distrust with which many Egyptians still view the GoE's economic reform efforts.
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